



**Director of
Central
Intelligence**

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CENTRAL AMERICA: Political Activity in El Salvador

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The third-place National Conciliation Party will hold the balance of power in the new Salvadoran Government and will demand major concessions in exchange for its cooperation.

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President Rios Montt is caught between pressure from senior and junior officers.

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With more than 1 million ballots counted in the Salvadoran elections so far, the five rightist parties and the cogoverning Christian Democrats are continuing their efforts to form ruling alliances.

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Comment: The strong third-place showing of the rightwing National Conciliation Party virtually guarantees that it will hold the balance of power in the 60-member constituent assembly. Party leaders are therefore likely to demand major concessions from both the Christian Democrats and Roberto D'Aubuisson's ultraconservative National Republican Alliance--which continue to run first and second, respectively--in exchange for their cooperation.

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The National Conciliation Party probably will lean toward policies advocated by the conservatives, including relentless pursuit of the insurgents and refusal to consider negotiations with them. Nevertheless, it is by no means certain that party officials will sacrifice their crucial swing role by committing themselves to a binding coalition with the far right.

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Some National Conciliation leaders, for example, are said to be against a leadership role for D'Aubuisson in the new government, favoring instead their own more pragmatic candidates. They are, moreover, aware of the need to keep the participation of the Christian Democrats in the new government--although not necessarily that of President Duarte--in order to maintain essential domestic and international support.

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There are indications that the total vote will approach 1.3 million. Significantly, only 3 percent of the ballots counted so far have been blank--the traditional signal of voter protest.

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EC: Summit Highlights

//Results of the EC summit this week underscore the deep differences among the Ten on economic policy and their reluctance to proceed with credit restrictions against the USSR.//

//West German Chancellor Schmidt and British Prime Minister Thatcher rejected increased spending to stimulate the West European economy, a recourse favored by the other leaders, particularly French President Mitterrand and Greek Prime Minister Papandreou. Mitterrand and Thatcher restated their conflicting positions on the UK's rebate of its payment to the EC, foreshadowing a probable impasse at the EC Foreign Ministers' meeting on Saturday.//

//The EC leaders, in discussions on credit restrictions against the USSR, noted the stabilizing influence of economic and commercial ties with Eastern Europe and their desire to see them continue. Despite initial objections by Mitterrand and Danish Prime Minister Joergensen and a formal reservation by Papandreou, they agreed that the national governments and the EC Commission would study the export credit policies of EC members in consultation with other OECD members.//

Comment: //Although the EC is irritated over high US interest rates and Japanese trade policy, its members are unlikely to formulate a common position to counter these problems before the Versailles summit in early June. EC members also probably will not be able to co-ordinate their domestic economic policies in the near term.//

//While Bonn and London emphasize holding down inflation and reducing budget deficits, Paris still is concentrating on fostering employment through increased deficit spending. Beyond this, an open rift between the UK and France over the rebate issue could preclude any EC attempt to present even a facade of unity at Versailles.//

//EC agreement to study export credit policies is a concession to US concerns aired during recent high-level consultations. Although the EC probably wants to show willingness to continue discussion of credit restrictions, most members remain opposed to them.//

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USSR: Brezhnev's Health

The rumor of President Brezhnev's hospitalization has become widespread in Moscow. [REDACTED]

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[REDACTED] The President's next scheduled public appearance is at the celebration of Lenin's birthday on 22 April. [REDACTED]

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CHINA-USSR: High-Level Chinese Skepticism

//Chinese Defense Minister Geng Biao told a foreign delegation on Monday that he was not optimistic about improving relations with the USSR, which he described as a wolf that cannot disguise its nature.// Vice Premier Li Xiannian stated on Tuesday that President Brezhnev's offer last week for improved relations does not correspond with the "reality" of Soviet intentions.

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Comment: These statements are intended to reaffirm Beijing's suspicion of Moscow. They do not, however, preclude China from broadening low-level contacts with the USSR in such areas as scholarly cooperation and sports exchanges.

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ROMANIA: Rising Popular Discontent

//Popular dissatisfaction with economic conditions seems to be growing again. Food supplies remain inadequate despite steep price hikes imposed in early February. The urban populace also is grumbling about more frequent cutoffs of gas and electricity, increased layoffs and factory shutdowns, and a program to move workers to the farms. Although there have been no reported incidents of labor unrest similar to those that occurred last fall, the regime has tightened security.//

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Comment: The economy will continue to slow down, particularly while delays in debt rescheduling negotiations limit foreign credits.

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SAUDI ARABIA: Proposed Political Reforms

Crown Prince Fahd has announced that some long-delayed proposals for reform will be submitted in June to King Khalid for approval. These proposals were first advanced more than two years ago following the attack on the Great Mosque of Mecca. They include plans for a government-appointed national consultative council, a set of basic laws intended to modernize the system of justice, and administrative reform in the provinces designed to enhance the power of local government. The government's public statements stress that the reforms emphasize its commitment to an "Islamic system of democracy."

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Comment: Riyadh probably is attempting to counter recent criticism by Iran and Libya that the Saudi political system is outmoded, inequitable, and has strayed from the true Islamic path.

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VIETNAM: Leadership Changes

The Fifth Party Congress ended yesterday with the top five Politburo members retaining their positions, six others dropped, and the size of the membership reduced from 17 to 15. It is the largest Politburo turnover in at least 20 years. The most notable of those ousted was sixth-ranked former Defense Minister Vo Nguyen Giap. Four new members include two military officers and Foreign Minister Nguyen Co Thach.

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Comment: The promotion of younger men identified with party leader Le Duan indicates that--at the senior level--opposition to his incentive-oriented economic policies will diminish. Speeches made at the congress emphasized the need for party unity and discipline in tackling economic problems; this suggests that personnel changes reaching down to the lowest levels of the party will continue. Foreign policy will be unaffected by the personnel changes.

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SPECIAL ANALYSIS

ISRAELI - ARAB STATES: More West Bank Unrest Ahead

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//Israel's determination to continue its campaign to eliminate PLO influence in the West Bank and Gaza is certain to cause further violence. Lack of organization and divisions in the West Bank leadership probably will prevent the Palestinians from putting up sustained opposition to the Israeli moves. Another round of violence is likely when the Israelis name replacements for the recently ousted mayors.//

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//The current unrest has its roots in Israel's decision last summer to tighten its control in the occupied territories, to destroy support for the PLO, and to strengthen conservative, clan-based Arab politicians in the rural areas. Patronage, administrative powers, and some weapons were given to leaders of the Israeli-sponsored rural Village Leagues, which were created to undercut the influence of the generally pro-PLO officials in urban areas. The Israelis' goal is to create a conservative Arab leadership with no links to the PLO that will acquiesce to the government's concept of limited self-rule.//

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//Defense Minister Sharon's efforts to support the Village Leagues were only marginally successful, and he apparently has concluded that stronger measures were required to overcome the refusal of the urban officials to cooperate. In addition to removing three pro-PLO mayors from office, Sharon has closed a West Bank university and cracked down on local newspapers. His determination to force a showdown with PLO supporters is likely to lead to the dismissal of additional mayors and other officials.//

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Arab Reaction

//West Bank and Gaza Arab leaders are convinced that the Israelis intend eventually to annex the territories. According to a number of Arab officials, reaction to the recent mayoral ousters has been more violent than past protests because Arabs believe the dismissals are the final step before such action.//

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Arab protests probably will become more violent as the Israeli campaign continues. Firebombs and grenades were used for the first time in the recent disturbances. The increasing involvement of militant Jewish settlers--often the target of Arab attacks--will heighten the unrest.

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//Moreover, conflict between West Bank Arabs is increasingly likely.

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The Role of the PLO

The attitude of the PLO will be an important factor in future developments. So far it has largely refrained from participating in the current violence, because it does not want to give the Israelis an excuse for attacking its positions in Lebanon. A PLO decision to challenge the Israelis and increase infiltration will add to the violence.

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//PLO leverage on the West Bank is limited, however, because it lacks an areawide organization. Moreover, deep-seated local animosities and divisions in the local

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leadership make it unlikely that West Bank and Gaza Arabs can cooperate sufficiently to mount effective opposition that would raise the cost of the occupation for the Israelis significantly.//

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//The next major outbreak of violence could come when Sharon names replacements for the ousted mayors of Al Birah, Ram Allah, and Nablus. These towns are centers of Palestinian nationalism and have a history of political activism.//

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